Supreme Court of the United States

October Term, 19

No.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1960

No. .....

SARKES TARZIAN, INC., A Corporation
Petitioner.

v.

AUDIO DEVICES, INC., A Corporation;
AUDIO DEVICES, INC., RECTIFIER DIVISION, A Corporation;
AUDIO MANUFACTURING CORPORATION, A Corporation;
DISTRICT PRODUCTS CORPORATION, A Corporation;
GEORGE J. EANNARINO,
ROBERT G. PARSON,
FRANK GILLESPIE,
HUBERT G. DOHMEN,
CHARLES C. L. SMITH,
CLARENCE WILLIAM CHESNUT,
ERNEST C. FRIES,
FREDERICK G. SCHULLER,
and DOE I to DOE C, inclusive,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Sarkes Tarzian, Inc., your Petitioner, prays that a writ of certiorari issue to review the judgment of the United

States Court of Appeals for the Ninth Circuit, entered in the above-entitled case on November 21, 1960.

OPINIONS BELOW

The opinion of the District Court (R. 78-149) is reported at 166 F. Supp. 250.[1] The opinion of the Court of Appeals (infra, Appendix A, p. 26) is reported at 283 F. 2d 695.

JURISDICTION

The judgment of the Court of Appeals was entered on November 21, 1960 (infra, Appendix B, p. 27). No petition for rehearing was filed. The jurisdiction of this Court is invoked under the provisions of 28 U.S.C.A. Section 1254 (1).

QUESTIONS PRESENTED

1. Whether the lower courts ignored California law of trade secrets in defining a trade secret as a "particular form of construction of a device, a formula, method or process that is of a character which does not occur to persons in the trade with knowledge of the state of the art or which cannot be evolved by those skilled in the art from the theoretical description of the process, or compilation or compendia of information or knowledge" thus: (a) applying an erroneous test in determining that Petitioner had no protectible trade secret in its certain manufacturing process, and (b) arriving at the erroneous conclusion that the process for manufacture of silicon rectifiers, developed by Petitioner, was "readily ascertainable" to the trade.

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1. Inasmuch as nine additional copies of the record as printed for the use of the Court of Appeals have been filed pursuant to Rule 21 (4) the opinion of the District Court is not appended to this Petition. Rule 23 (1) (i).

2. Whether the lower courts ignored California law of trade secrets in determining that Petitioner's process for manufacturing silicon rectifiers was not substantially appropriated by Respondents.

STATEMENT OF THE CASE

This case involves basically the question whether or not the individual Respondents, former employees of Petitioner, and Respondent Audio Devices, Inc. (Audio) wrongfully appropriated to themselves Petitioner's claimed trade secrets in a process for manufacture of silicon rectifiers. The facts, briefly, are as follows:

Petitioner, Sarkes Tarzian, Inc., was, from about 1949 to the present date, engaged in the manufacture of selenium rectifiers. The selenium rectifier represented an advance over the use of expensive and bulky vacuum tubes for the conversion of alternating electric current to direct current required by radio and television sets. Such rectifiers met the need for low price, miniature rectifiers possessing the requisite resistance to heat.

In late 1955, Petitioner, with the intention of engaging in the manufacture of the relatively new silicon rectifier, purchased, for $160,000.00, the plant of the Silicon Corporation of America (Silcoa) and removed some of its personnel, its equipment and inventory to Bloomington, Indiana, where it established its silicon rectifier operation. (Fdg. 10, R. 155.) At the time this silicon program was initiated by Petitioner, Respondent Eannarino was the Director and General Manager of Petitioner's selenium rectifier division, and Respondents Parsons, Smith, Chesnut, Fries and Schuller were highly placed technical and administrative employees of the Rectifier Division (R. 226-228). All, except the accountant, Schuller, had signed

agreements to respect plaintiff's research and manufacturing processes as trade secrets (Pltf. Exs. 40-46 incl.). Respondent Oleksy and the other former employees of Silcoa, similarly signed such agreements to respect as trade secrets and confidential information all of the research and engineering work of Petitioner immediately upon accepting employment with it. None of the individual Respondents, except Oleksy, had prior experience in silicon, or, more particularly, the manufacture of silicon rectifiers (R. 190, 688-690, 980-981).

The entire research and development program on silicon rectifiers was designated as secret and confidential by the Sarkes Tarzian, Inc. management (R. 210-212, 591-592, 622-624) (Pltf. Exs. 47, 48, 49, 51, 52, 53, 54, 55). No evidence was introduced by Respondents contradictory of Petitioner's proof that its silicon rectifier program was designated and consistently protected as secret by the management of Sarkes Tarzian, Inc., and the Court made no finding that such was not the case.

Not until late summer of 1956, after intensive research and development, did Petitioner feel that it could announce a successful silicon rectifier available to the trade (R. 199, 624-5). Such announcement was made by Respondent Eannarino, who claimed an original and sensational "first" on behalf of Petitioner (Pltf. Exs. 1-34, incl.) By late spring of 1957, manufacturers of radio and television sets had approved and were using Petitioner's silicon rectifier as original equipment (R. 626). Petitioner was the only company manufacturing a radio and television type silicon rectifier which was accepted by and sold to original equipment manufacturers in any quantity and, as of mid-1957, Petitioner was experiencing no substantial competition in this field (R. 241, 576, 609, 649-650) al-

though other companies were seeking to develop competitive products.

On or about July 20, 1957, Respondent Eannarino approached Audio Devices, Inc. with the proposal that that company back him in his plan to start a competing silicon rectifier business (R. 367-377, 560-562, Pltf. Exs. 79, 80). That his plan was to establish such business with Tarzian employees was known by Audio (R. 383-384, 563-564). Respondent Audio had never before been in the rectifier business or in any business utilizing silicon (R. 359-360, 476-477, 505-506, 546) and it determined to enter the business solely upon Eannarino's representation and without independent investigation, research, or employment of additional personnel (R. 512-513, 517-529, 538-545). With the full consent and knowledge of Audio Devices, Eannarino recruited the other individual employees from Petitioner's Rectifier Division.

On the evening of August 8, 1957, Audio's President, Speed, notified Eannarino that his plan had been approved by the Board of Directors and officers of Audio (R. 393, 408-410, 579 582, Pltf. Ex. 79). The following day, all of the individual Respondents submitted their resignations to Petitioner, and immediately proceeded to California to establish a rectifier plant for Audio. In less than a month, Audio announced its entry into the television and radio silicon rectifier market (R. 230, Pltf. Exs. 72, 73, 116) and by December, 1957, Respondents had achieved substantial commercial production (R. 863, 893, Pltf. Exs. 74, 75, 77).

The District Court held that Petitioner had no protectible trade secrets in its manufacturing process on the ground that the process did not measure up to its standard or definition of a trade secret. The trial court also made

findings that the Audio process differed in certain respects from the Tarzian process and that there was, therefore, no appropriation of any secrets claimed by Petitioner. Additional findings of the District Court to the effect that there was no breach of trust by the individual Respondents and no enticement by Audio necessarily resulted from its initial conclusion that no trade secrets existed in the Petitioner's process.

Petitioner appealed the holding of the District Court to the Court of Appeals for the Ninth Circuit. That Court affirmed the District Court without writing a separate opinion but, instead, adopting as its own, the opinion of the District Court. For this reason, reference will be made to the opinion of the District Court throughout the argument.

Basis of Federal Jurisdiction

Federal jurisdiction in the Court of the first instance was based upon diversity of citizenship, 28 U.S.C.A. Section 1334. Petitioner is a corporation organized under the laws of the State of Indiana. Respondent Audio Devices, Inc., is a corporation organized under the laws of the State of New York, with a place of business in the State of California. Respondents Eannarino, Parsons, Oleksy, Dohmen, Smith, Chesnut, Fries and Schuller are citizens of the State of California. The amount of damages alleged in the Complaint exceeded $3,000.00.

ARGUMENT

This is a diversity case and the law of California should have been applied as the trial court ostensibly recognized. In fact, however, the trial court and the Court of Appeals, in adopting the trial court's opinion, deliberately ignored California law in developing a concept of trade secret which excludes from protection under the law any trade secrets in manufacturing processes which consist of unorthodox combinations of well-known products and process steps. The decision is in direct conflict with the California decisions. The courts below did not merely err in interpretation but completely failed to apply the law.

For the above reason alone, this Court should grant this writ for review of the decision. Coupled with the above, however, is the fact that the question decided in this suit by the courts below assume importance which transcends the interests of the litigants involved. The case involves one of the most pressing and difficult problems facing American industry, namely, the need for assurance that successful and secret manufacturing processes will be secure, under the law, against raids by would-be competitors who seek to enter the same field of endeavor; it represents an area of rapidly expanding litigation. Although this is a diversity case, each decision in this growing body of law assumes national significance because of the tendency in this area to refer to general authority for delineation of the scope of protectible trade secrets. This Court has not ruled on a question involving trade secrets since *DuPont De Nemours Powder Co. v. Masland*, 1917, 244 U. S. 100. A definitive holding on the law of trade secrets under California law by this Court would not only remedy the failure of the courts below to

apply the law but also establish guideposts for the future in an area where the recurring problem is one of protecting the valuable assets denominated trade secrets.[2]

I. Trial Court's Definition of Trade Secret—"Discovery."

The basic element of a trade secret is that it must be secret. It must be secret in the sense that it does not consist of matters of public or general knowledge; *Aetna Building Maintenance Co. v. West*, 1952, 39 Cal. 2d 198, 246 P. 2d 11, or of merely mechanical skills and experience which employees acquire over a period of employment. *LeVine v. E. A. Johnson & Co.*, 1951, 107 Cal. App. 2d 322, 237 P. 2d 309. There are many facets to this question of secrecy as indicated in the cited California cases and in the American Law Institute, Restatement of Torts in the following language:

> "An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of its business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others." A. L. I., Restatement, Torts, Section 757, Comment b, page 6.

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2. Petitioner recognizes that, in diversity cases, pursuant to the *Erie v. Tompkins* doctrine, there is no transcendental body of federal common law apart from the laws of the particular state involved. However, Petitioner believes that the significance of the individual precedents in this area of the law lends added emphasis to the need for this Court to review the California law of trade secrets which, for all intents, parallels the general law.

Although this does not represent an exhaustive list of the factors which are generally considered by the courts in determining whether or not a trade secret exists in a certain process or product, the reference by the Restatement to the factors to be considered emphasizes that the judicial role in a trade secret case is not to determine in the abstract whether a given claimed secret achieves some esoteric quality which the trial court, in this case, termed "discovery"; but, instead, a step-by-step consideration of the factors tending to show whether or not a process, formula, or product is or is not the secret property of the claiming party.

The trial court's approach, in this case, was to measure the adequacy of the manufacturing process developed by this Petitioner against its own definition of a trade secret, set forth in its opinion in the following language:

> "[A] trade secret . . . on the whole . . . must consist of a particular form of construction of a device, a formula, method or process that is of a character *which does not occur to persons in the trade with knowledge of the state of the art or which cannot be evolved by those skilled in the art from the theoretical description of the process, or compilation or compendia of information or knowledge.*" (R. 87) (Emphasis added.)

This so-called definition of a trade secret has no foundation under California law, as will be shown in the discussion of the most recent pronouncement by the Appellate Court of California on the subject (infra p. 18), and reflects most clearly the basic error into which the District Court was drawn in its creation of a concept of "discovery" which goes beyond anything in the general law on the subject.

The definition, in effect, relegates to non-trade secret category any kind of device, formula, method or process which can, in any possible manner, be evolved by those skilled in the art from the compilation of information available to the art. It is in direct conflict with the accepted distinction between a patent and trade secret, which basic distinction is set forth quite succinctly in the Restatement of Torts as follows:

> "A trade secret may be a device or process which is patentable; but it need not be that. It may be a device or process which is clearly anticipated in the prior art or one which is merely a mechanical improvement that a good mechanic can make. Novelty and invention are not requisites for a trade secret as they are for patentability." A. L. I., Restatement, Torts, Section 757, "b", p. 6.

Although Petitioner is not contending that the trial court was unaware of the existence in the law of this basic distinction, it is a fact that the trial court introduced confusion into the law by announcing a concept which it termed "discovery" which, for all practical purposes, incorporates the mechanical improvement test applicable to patents. The trial court's definition of a trade secret led it to state dogmatically in its opinion that:

> "[T]here is no discovery when one skilled in the art develops a process for effecting certain desired results." (R. 100)

In sharp contrast the Court of Appeals for the Sixth Circuit in *A. O. Smith Corp. v. Petroleum Iron Works*, 6 Cir., 1934, 73 F. 2d 531, 538 distinguished invention and discovery as follows:

> "To entitle one to a patent, there must be invention. The applicant must have exercised some degree of

> ingenuity, displayed some flash of genius, inspiration, or imagination not within the reach of mere artisanship. That which constitutes invention has, of course, never been successfully defined. There are tests, however, which responded to, proclaim its absence; the most familiar, of course, being that leading to the determination, always difficult to make that the thing achieved was the result of ordinary mechanical skill. A process, may, however, be maintained in secrecy and be entitled to equitable protection even though invention is not present. The cases which deal with the elements necessarily present in a proprietary process are careful to define such processes as resulting from invention, or *discovery*. Quite clearly discovery is something less than invention. Invention requires genius, imagination, inspiration, or whatever is the faculty that gives birth to the inventive concept. *Discovery may be the result of industry, application, or be perhaps merely fortuitous.*" (Emphasis added.)

And, in *Franke v. Wiltschek*, 2 Cir., 1953, 209 F. 2d 493, the Court of Appeals for the Second Circuit, in holding that a trade secret existed in a simple process for compressing a face cloth into a small mass, cautioned against the use in the field of trade secrets of the mechanical skills test. The court stated (209 F. 2d at 499):

> "[S]ince the ability of a 'good mechanic' is quite an imprecise concept, its destructive potentialities in this area [trade secrets] under the natural tendency of restrictive precedents to accumulate can be forecast."

By giving new meaning to the term discovery the trial court has introduced this condemned "imprecise concept" into the law of trade secrets.

Finding no support in the California cases for its unique use of the term discovery, the trial court attempts to find

basis for its theory in three early decisions by this Court; but those cases do not support his view. Thus, *Foucle v. Park*, 1889, 131 U. S. 89, 97, 9 S. Ct. 658, 662, used the word "discovered" in a non-definitive manner to describe how the claimed trade secret was developed. *Board of Trade of City of Chicago v. Christie*, 1911, 198 U. S. 236, 25 S. Ct. 740, involved the Board of Trade's property in confidential and continuous quotation of prices on sales of grain and provisions for future delivery, and Petitioner is at a loss to determine what element of discovery, as the trial court defines that term, was there involved. The case of *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 1911, 220 U. S. 373, 382, 31 S. Ct. 376, 382, simply held that a trade secret as a "discovery" could be used by "Anyone . . . who fairly, by analysis and experiment, discovers it." This Court gave no special significance to the term "discovery," in that case and, certainly, this Petitioner would not take issue with the statement that anyone may use a secret process if he fairly *discovers* it by his own efforts.

The *A. O. Smith* case, *supra*, and the cases cited therein similarly found no special magic in the term discovery. *A. O. Smith*, *supra*, indicates that discovery may result from "industry, application, or be merely fortuitous." *Herold et al v. Herold China & Pottery Co.*, 6 Cir., 1919, 257 F. 911 defined discovery as involving more than the mere experience or mechanical skill of an employee engaged in the trade of pottery manufacture, which is merely another way of saying that the skills an employee acquires in his trade cannot be the subject of a claimed trade secret. *O. & W. Thum Co. v. Tloczynski*, 1897, 114 Mich. 357, 72 N.W. 140 did not define discovery, but found a trade secret to exist in a certain process after giving practical consideration, among other things, to the fact that em-

ployees engaged by the plaintiff there had no previous special skills in the process involved. In *Solomon v. Hertz*, 40 N.J. Eq. 400, 2 A. 379, 380, the court, in refusing to grant a motion to dissolve an injunction, held merely that:

> "One who invents or discovers and keeps a secret process of manufacture, whether patentable or not, has a property therein which this court will protect against one who in violation of contract and breach of confidence, undertakes to apply it to his own use or disclose it to a third person."

This is precisely Petitioner's contention.

None of the California cases cited by the trial court give any inkling that the mechanical skills test is applicable to the trade secret cases. *LeVine v. E. A. Johnson & Co.*, 1951, 107 Cal. App. 2d 322, 237 P. 2d 309 stands only for the proposition that an employee who had engaged in more than forty years' daily experience in the field of construction and operation of so-called cooling towers could not be enjoined from using skills and experience so acquired after taking new employ, and is inapplicable on its facts to this case. *Aetna Building Maintenance Co. v. West*, 1952, 39 Cal. 2d 198, 246 P. 2d 11 held only that, absent *prior designation by an employer of processes for furnishing janitorial services as secret* and absent evidence that such processes in any manner differed from the general accepted trade practices, there could be no claim of a violation of "trade secret" by a former employee. *Bourns v. Edcliffe Instruments*, D. C. Cal., 1954, 125 F. Supp. 503 held, without discussing the detailed nature of the claimed secret, that there could be no trade secrets in the names of customers and sources of supply if such information was obvious to the general trade. *George v. Burdusis*, 1949, 21 Cal. 2d 153, 130 P. 2d 399, is to the same effect. Relying in this manner on cases involving customer lists, ei-

ther undesignated as secrets or readily available to the trade, and upon cases involving merely employee skills, the trial court rewrote the California law of trade secrets as discussed infra at page 18. Its approach led inexorably to an erroneous reliance on "prior art" in the patent usage of that term.

II. District Court's Erroneous Reliance on Prior Art—What is Readily Ascertainable?

In the *A. O. Smith* case, *supra*, the finding by a master that certain trade secrets were in the public domain "because [they were] within the realm of mechanical skill" was held to be in error. As the court in that case correctly pointed out (73 F. 2d at 538):

> "[I]f the rule applied by the master be the true one, it would be difficult to conceive of any process whose secrecy is entitled to be protected which is not at the same time patentable except in so far as the patent law limits the subject matter of patents."

If the definition of trade secret applied by the District Court is allowed to stand, there can be no trade secret except in matters which are patentable or which approach the novelty one would normally associate with invention.

That this would be the practical, if not the intended result of the District Court's statement of the law is clear from its approach to the instant case. The court virtually ignored the facts which stand of record that Audio Devices, Inc. had no previous experience in the manufacture of rectifiers of any sort, that neither Audio nor any of the individual defendants except Oleksy had any previous experience with silicon, that, although Audio spent a considerable sum in initiating its rectifier division in California, the expenditures were for plant and equipment and

not research and development; and that in late 1957, the critical date, Petitioner alone had a successful process for the manufacture of silicon rectifiers of the radio and television type. Overlooking these undisputed facts, the Court held that, on the basis of a prodigious amount of so-called prior art references introduced into evidence, Respondents had established that the process here involved was readily ascertainable to the trade. In so holding, the trial court could not have been aware that Respondent Audio expended vastly more effort, time and money in the research incident to this trial than incident to its initiation of a silicon rectifier business.

Reliance on a mass of evidence of so-called prior art in trade secret cases has repeatedly been rejected by the courts. In *Sun Dial Corp. v. Rideout*, 1954, 29 N.J. Supp. 361, 102 A. 2d 90, 93-94, the court, in referring to such evidence, stated:

> "The fact that individual process steps are known to industry and the further fact that every product used by plaintiff . . . can be bought in the open market does not weaken the conclusion we reach. Williams . . . was able to devise a combination of products and methods which resulted in preeminently fine dial and panel work—much like a fine chef who achieves an outstanding culinary product by a sequence of blending ingredients and by timing achieved through a long period of trial and error."

In refusing to give weight to evidence which indicated general trade knowledge of individual process steps, it is interesting to note that the court in the *Sun Dial* case also alluded to the concept of discovery as enunciated in *A. O. Smith, supra.* However, the court correctly determined that the use of a well-known, proprietary paint product in an unorthodox manner, along with a combina-

tion of a number of well-known process steps, still amounted to trade secret. In contrast, the trial court below and the Court of Appeals, by adopting the trial court's opinion, held that this Petitioner had no trade secret because, in their estimate:

> "Whether a method is or is not unorthodox does not determine its validity as a secret. It is whether it is unique and unknown in the trade that is important, or whether there is discovery in selecting between alternative steps." (R. 112)

The Court apparently intended, by this statement, to hold that unorthodox combinations of individually well-known process steps could not be secret. By so holding, it determined that unless the processes involved were proprietary and unique in the inventive sense, there can be no trade secret.[3] This is just not the law.

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3. The trial court, in so concluding, chose to find something damaging in what it termed an admission by Petitioner's expert which developed in the following colloquy, (R. 930):

"The Court: These various processes which you have described for us are recognized methods in the art of achieving the things that we have in mind? For instance, the pulling of crystals is a recognized method of transmuting the multipoly crystalline to a uni-crystal by the method of what has been called etching. Etching is a method of cleaning metals and there are various methods of achieving that end either by polishing or running them through various compounds, the qualities of which are known to chemists and persons in the field.

"Every step in this process is a recognized process in the particular industry, is it not?

"The Witness: That is a very general question. I believe the answer to that would be yes, there are very few processes that are used which are not used in some other way. Certainly we etch lamp bulbs—lamp bulbs, for example, are etched.

"Crystals of synthetic quartz are nowadays.

"The Court: And what you have outlined as you say is the uniqueness of the process as practiced, was that they used what you call unorthodox methods of arriving at certain results. Isn't that true?

"The Witness: Well, this is certainly true—some of the processes that are used—in fact, several of the processes which are used there are in direct conflict with the overwhelming preponderance of processes that are outlined in the literature.

"The Court: As applied to this particular art?

"The Witness: Yes, that is right."

The above colloquy was quoted by the trial court in its opinion at R. 142.

Evidence of prior art was similarly given little weight in the case of *Heyden Chemical Corp. v. Burrell & Neidig*, 1949, 2 N.J. Supp. 48, 64 A. 2d 465, which involved alleged trade secrets in processes for the manufacture of formaldehyde and pentaerythritol. The New Jersey court in that case held that evidence of the prior art consisting of some 800 to 1000 references dealing with the production of formaldehyde and 500 to 600 dealing with the production of pentaerythritol did not support the defendant's contention that the claimed processes were part of the general knowledge of the trade. The court observed that the processes of manufacture of both chemicals consisted of a number of integrated steps known to the trade, that the basic ingredients were well-known to the chemical profession, and that there existed numerous articles, patents and treatises relating to the manufacture of the chemicals. The court pointed out, however, that (64 A. 2d at 467):

> "[O]nly a person who knew the Heyden process [claimed secret] could make the selection of literature references which were offered in evidence."

It is equally clear in the present case that only by being aware of the Tarzian process for manufacture of rectifiers could defendants select the literature references to be put in evidence in support of their contention that the Tarzian process was well-known to the trade. For this reason, courts have repeatedly held irrelevant literature showing only general non-definitive steps or parts of a process or product or showing only isolated fragments of a process or product.[4] See *L. M. Rabinowitz v. Dasher*,

4. Counsel for the Respondent indicated the approach followed by Respondent in the presentation of a conglomerate of prior art references in the following statement (R. 1346):

> "[W]e have never represented that this patent teaches every step in the art. We have used it to illustrate that it teaches one or two of the steps, but not every step."

By knowledge of the Tarzian process the Respondents could assuredly locate patent references to the individual steps.

1948, 82 N.Y.S. 2d 431, 438, *Schavoir v. American Rebonded Leather Co.*, 1926, 104 Conn. 542, 133 Atl. 582; *Extrin Foods v. Leighton*, 1952, 281 App. Div. 772, 115 N.Y.S. 2d 429; *Monsanto Chemical Co. v. Miller*, D. C. Utah, 1958, 118 U.S.P.Q. 74; *Head Ski Co. v. Kam Ski Co., Inc.*, D. C. Md., 1958, 158 F. Supp. 919, 923; *Allen Mfg. Co. v. Loika*, 1958, 145 Conn. 509, 144 A. 2d 306; *Stone v. Goss*, 1903, 65 N.J. Eq. 756, 55 Atl. 736; *Minnesota Mining & Mfg. Co. v. Technical Tape Corp.*, N. Y., 1959, 123 U.S.P.Q. 96.

III. Direct Conflict of Trial Court's Holding With California Law of Trade Secrets.

On the basis of the trial court's definition of "discovery" which incorporated the mechanical skills test of the patent law and which led the trial court to false reliance on prior art references, the courts below completely ignored the applicable California law. The decision by the California Appellate Court in *By-Buk Co. v. Printed Cellophane Tape Co.*, 1958, 163 Cal. App. 2d 157, 329 P. 2d 147 (rehearing denied September 12, 1958; petition for hearing denied October 22, 1958) is the most recent and illuminating discussion of that law. The case was decided subsequent to the decision of the trial court, but prior to the affirmance of the lower court's holding by the Court of Appeals. It represents a definitive restatement of the accepted law of trade secrets of the State of California which the courts below chose to ignore; but which, having been decided while this case was *sub judice*, was binding on the lower courts. See *Vandenbark v. Owens-Illinois Glass Co.*, 1940, 311 U. S. 538, 51 S. Ct. 347.

In the *By-Buk* case, the plaintiff was a manufacturer of masking discs and die cut masks of pressure sensitive tape

for use in shielding industrial apparatus from abrasives or paint. The machines and processes to manufacture such products were in use by an Eastern competitor, but plaintiff had been unable to purchase machinery and know-how to affect this production. It, therefore, undertook *independent* experiments to develop its own machines and processes. Plaintiff was successful in developing machinery to secure the desired results, but, subsequently, one of its employees terminated employment and went to work for a competitor, who immediately entered business in competition with plaintiff using similar machinery and methods. The California Appellate Court held that the plaintiff had a protectible trade secret and that an injunction against appropriation by defendant was proper.

The California Appellate Court held that although it had been stipulated at trial that all component parts of the machines developed by plaintiff were standard parts procurable on the open market, defendant's contention that the machines made of such standard parts could not be unique or unusual was properly rejected. The court pointed out that in making this assertion, the defendants misconceived the elements of a trade secret. The court noted:

> "It is not necessary in order that a process of manufacture be a trade secret that it be patentable or be something that could not be discovered by others by their own labor and ingenuity. Restatement, Torts, Volume 4, Section 757, Comment B, Page 5, defined the term as follows: 'A trade secret may consist of any formula, patent, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. * * * Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article.'

> "The character of the secret if it is important to the business is not material but it must, as the term implies, be kept secret by the one who claims it. Riess v. Sanford, supra, 48 Cal. App. 2d 244, 246, 117 P. 2d 694, Restatement, Torts, Volume 4, Section 757, Comment B, pp. 5, 6."

After thus stating the definition of a trade secret, the California Appellate Court held that plaintiff's machines were trade secrets. It was apparent to that court that plaintiff's technique of combining, through a system of trial and error, various parts, which were apparently known to the trade, in order to produce the results he desired bore fruition in a protectible trade secret embodied in the machines which plaintiff had developed. The court went on to say:

> "It is undoubtedly true that if Tape Company [defendant] had used the same thought, labor and ingenuity which were used by plaintiff it might have been able to secure the same results that plaintiff did. But this fact does not destroy plaintiff's right not to have its processes wrongfully disclosed to others and used to its detriment."

The ruling of the Court in the *By-Buk* case could never obtain under the decision of the trial court in this case. According to the trial court, the mere fact that an eastern competitor had achieved the desired result (a combination of known, standard products) from its study of the knowledge in the art, and that there was, indeed, enough information in the art to guide the plaintiff as a skilled mechanic in arriving at the desired result would have defeated any claim of trade secrecy. The plaintiff in the *By-Buk* case did not "discover" anything in the manner suggested by the trial court but, by a patient system of

trial and error, he combined various parts from known processes and devices to achieve a protectible trade secret. In a sense this is discovery and this concept of "discovery", as applied by the California court in the *By-Buk* case, parallels the true concept of discovery as set forth in the *A. O. Smith* case, *supra*.[5] As stated in the *A. O. Smith* case (73 F. 2d at 538):

> "The mere fact that the means by which a discovery is made are obvious, that experimentation which leads from known factors *to an ascertainable but presently unknown result* may be simple, we think cannot destroy the value of the discovery to one who makes it, or advantage the competitor who by unfair means, or as the beneficiary of a broken faith, obtains the desired knowledge without himself paying the price in labor, money, or machines expended by the discoverer." (Emphasis added.)

Thus, the courts below have not only ignored completely the governing California law, they have also created a precedent which will engender great doubt and confusion as to the nature of a protectible trade secret under the laws of California and generally.

IV. Appropriation of Alleged Trade Secrets—Improper Standard Applied by Trial Court.

The courts below, in addition, have provided a defense to wrongful appropriation which has no possible basis under California law. Respondent Audio Devices, Inc. had

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5. A previous decision by a California trial judge, Judge Praeger, in *Lee* v. *Samburn*, 1952, 94 U.S.P.Q. 153 paralleled the *By-Buk* discussion of the law of trade secrets in California. Judge Praeger noted that there were few California cases on trade secrets, other than so-called customer list cases. He relied heavily on the general law. The trial court, when referred to this decision, stated that although he would consider the case he was not bound by the holding. (R. 1270.)

never previously engaged in the manufacture of any rectifier device and had never worked with silicon. Yet, within one month after establishing its plant in California, it was producing rectifiers in competition with Petitioner. There was no evidence and no finding that Audio Devices independently developed its own process; the only finding in this regard is that Audio Devices spent great sums of money to develop their new division. Initial investment by Audio was $800,000 for a plant to house its new division (R. 102). An additional $200,000 was expended for equipment; there is no indication that any money was expended for research and, indeed, there was no time allowed in which to conduct research prior to Audio's entry into competition with Petitioner. Minor variations were introduced in the Audio process, but these minor changes would not support the District Court's conclusion that there was no appropriation of the Tarzian process.

The trial court's approach to this question indicates that it had already determined that there was no trade secret in the Tarzian process because of a lack of "discovery". Its review of the so-called differences between the Audio and Tarzian processes was thus immaterial and unnecessary to its final conclusion; and was accomplished without regard to applicable law. Indeed, the trial court states in its opinion, which was adopted by the Court of Appeals that:

> "[T]he differences between the two processes under discussion here appear as the conscious attempt by former employees not to infringe upon whatever element of selectivity between alternative procedures there may have been in the Tarzian process." (At R. 128)

If, in fact, the Tarzian process were the secret process and

property of Petitioner, no amount of conscious effort on the part of Audio and the individual Respondents to modify their process in order to avoid infringement would avail them under the law. In the case of *By-Buk Co. v. Printed Cellophane Tape Co., supra*, similar evidence of changes, modifications and even improvements in the appropriated process was held to have been correctly excluded by the trial court. The California Appellate Court held flatly that:

> "[D]efendants cannot escape responsibility by showing that they have improved upon or modified plaintiff's process. Even though they may have modified or improved the plaintiff's process, they are still wrongfully using its property." (329 P. 2d at 154.)

In so holding, the Appellate Court of California relied on the Restatement of Torts, Section 757, Comment "C" as authority. It is provided in that comment to the Restatement that:

> "To subject a person to liability, under the rules stated in this section, for the use of another's trade secret, there is no requirement that he use it in exactly the form in which he received it. He may be liable even if he uses it with modifications or improvements upon it effected by his own efforts."

In the case of *Tower Manufacturing Company v. Monsanto Chemical Works*, D. C. N. Y., 1927, 20 F. 2d 386, Judge Agustus Hand observed:

> "I cannot think that the fiduciary obligation of one bound not to disclose a secret process or not to use such a process that has been improperly disclosed, is not violated, where the process employed is used to produce an identical result in ways directly suggested by the disclosure, though slightly different from it in detail."

Courts in a number of other jurisdictions have similarly held that variations or modifications in a process or product which was admittedly appropriated by the defendant were no defense to the charge of wrongful appropriation. *Booth v. Stutz Motor Car Co. of America*, 7 Cir., 1932, 56 F. 2d 962; *Harris Mfg. Co. v. Williams*, D. C. Ark., 1957, 157 F. Supp. 779; *Head Ski Co. v. Kam Ski Co., Inc.*, D. C. Md., 1958, 158 F. Supp. 919; *Scharoir v. American Rebonded Leather Co.*, 1926, 104 Conn. 842, 133 Atl. 582, 583.

In this case, Respondents made no effort to show independent development of their process, and, as the trial court indicated in its opinion, any differences in the processes were occasioned by the conscious efforts of Respondents to avoid obvious infringement of the Tarzian process. If the holding of the trial court, as affirmed by the Court of Appeals for the Ninth Circuit is allowed to stand, providing as it does a complete defense to wrongful appropriation of a secret process through minor modification or change in the process, no trade secrets are safe from the encroachments of industrial raiders.

V. Conclusion.

The trial court, and the Court of Appeals in turn, have, contrary to California law, determined that a trade secret cannot exist in a unique combination of well-known process steps. These courts have injected into the law of trade secrets the test more appropriate to determination of patentability, i.e., the test of whether the device or process involves more than the assumed ability of a mechanic skilled in the art; and, under the terms of the District Court's opinion, as a practical result, discovery has become the equivalent of invention.

In the language of the Court of Appeals for the Second Circuit in *Franke v. Wiltschek*, *supra*, at 498-499:

> "There may, it seems, be considerable danger in stressing in this branch of the law [trade secrets] the assumed ability of a 'good mechanic,' a concept often useful in highlighting the lack of novelty of an alleged patent. Even as to patents the capability of that ubiquitous genius has been questioned and his destructive effect on the law of inventions somewhat deplored. Be that as it may, there is positive danger in resort to the same device to justify the marauding instincts of trust violators, since thereby the carefully built law of trade secrets may be destroyed as a practical matter and such business assets be left open to hijacking from all sides. In practice the complicated and novel device is likely to be patented, leaving protection of simpler devices wrongly exploited to this branch of the law. And since the ability of a 'good mechanic' is quite an imprecise concept, its destructive potentialities in this area under the natural tendency of restrictive precedents to accumulate can be forecast."

The destructive potentialities thus forecast have become actuality under the holding in this case. These destructive potentialities confront all industrialists, large and small, who count trade secrets among their assets. This decision is, in fact, a clear blueprint for industrial theft.

It is respectfully requested that the Petition for Writ of Certiorari be granted.

C. B. Dutton,
Carl D. Overman,
Christopher Kirages,
Attorneys for Petitioner.

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

SARKES TARZIAN, INC., a Corporation,

Appellant,

v.

AUDIO DEVICES, INC., a Corporation, et al.,

Appellees.

No. 16,431
Nov. 21, 1960

APPEAL FROM THE UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA
CENTRAL DIVISION

Before: STEPHENS, BARNES and JERTBERG, Circuit Judges Per Curiam

The judgment is affirmed on the basis of the opinion filed in the case by the learned District Judge, and reported at 166 F. Supp. 250.

(Endorsed) Per Curiam Opinion Filed Nov. 21, 1960.

Frank H. Schmid, Clerk.

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

SARKES TARZIAN, INC., a Corporation, *Appellant*, v. AUDIO DEVICES, INC., a Corporation, et al., *Appellees*.	No. 16431

JUDGMENT

Appeal from the United States District Court for the Southern District of California, Central Division.

This cause came on to be heard on the Transcript of the Record from the United States District Court for the Southern District of California, Central Division, and was duly submitted.

On consideration whereof, it is now here ordered and adjudged by this Court, that the judgment of the said District Court in this cause be, and hereby is affirmed, with costs in favor of the Appellees and against the Appellant.

It is further ordered and adjudged by this Court that the Appellees recover against the Appellant for their costs herein expended and have execution therefor.

(ENDORSED)

Judgment: Filed and entered
November 21, 1960

FRANK H. SCHMID, Clerk

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Counterstatement of the Questions Presented

1. Whether this court should take up for review a diversity action, admittedly involving an application of local common law* (unfair competition based upon an alleged appropriation of proprietary material), which involved principally the determination of numerous questions of fact relating to highly technical and scientific proofs.

2. Whether there exists any basis for review by certiorari, where, irrespective of the applicable law as to what constitutes proprietary material, the District Court found as a fact that the alleged proprietary material was not, in any event, appropriated by Respondents.**

3. Whether there exists any basis for review by certiorari (a) where the Petition on its face discloses that the purported special reasons for review are not genuine and (b) where the record, reveals that there was no genuine issue or controversy below as to the applicable law.

4. Whether there exists any basis for review by certiorari where the Petition is based upon the contention that the law of the forum, California, was ignored but where even a cursory review of the opinion below reveals in fact that the law of the forum was extensively considered and applied.***

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* Petition, Page 8, n. 2.

** Finding No. 37, R. 164:

"The trial of this case consumed 17 days. The transcript in the case covers over 2500 pages. Portions of depositions were introduced which were not transcribed into the record. The plaintiff introduced 214 exhibits, the defendants 274. Many of the exhibits consist of pamphlets and documents of many pages. All have been restudied since the trial in arriving at the conclusion that Tarzian had no trade secret."

Finding No. 67, R. 173:

"The testimony and exhibits establish that Audio's process is dissimilar to and differs materially from the Tarzian process and this conclusion is reinforced by an examination of the patents and publications in which the various steps claimed as secrets, and as set forth in plaintiff's statement, Exhibit JN, are taught."

*** 166 F. Supp. 250, 256-266 (S.D. Calif. 1958).

Counterstatement of the Case*

Silicon p-n diodes, the subject matter of this litigation, were developed prior to 1952, and they were an outgrowth of the work done by Bell Telephone Laboratories in 1948 on what is commonly known as a transistor, a miniature device similar to a rectifier, utilizing semiconductive material such as silicon and germanium. In 1952, Bell Telephone Laboratories announced the development of a silicon p-n junction diode prepared by an alloying technique stating that the use of the device would fall under the general heading of rectifiers (Finding 38, R. 164, Ex. Q).

Immediately following, there was a tremendous expansion in the trade publications and reports with respect to the manufacture, design and composition of germanium and silicon devices (R. 1086-1087, Finding 39, R. 164). At the time this controversy arose silicon rectifiers were manufactured by many companies in the United States in a great variety of structures and characteristics for almost every known electrical application and were well known devices in the art (Exs. E, J, BW, Finding 41, R. 165).

In 1955, petitioner purchased for $160,000 the plant of Silicon Corporation of America ("Silcoa"), a small company engaged in making silicon rectifiers, and removed some of its personnel, its equipment and inventory to Bloomington, Indiana, where plaintiff established a silicon rectifier operation (Finding 10, R. 155).

Silcoa was not a financial or manufacturing success. The contract of purchase made no reference to trade secrets but simply contained a provision that Silcoa would not compete for a limited period of one year, to January, 1957 (Finding 11, R. 156). The agreement not

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* Pursuant to Rule 40(3), Supreme Court Rules.

to compete was valued at only $5,000 by petitioner as of June 30, 1956 and was depreciated to zero as of June 30, 1957. No value was ever attributed to any alleged secrets acquired from Silcoa or to silicon rectifiers (Finding 12, R. 156), although plaintiff's statements attributed value to trade secrets in other electronic devices.

Technical personnel employed by Silcoa and fully familiar with its process were not restricted in the use of information (except one, for a limited period of 2 months following January, 1956) and several of these individuals entered the employ of other companies and manufactured silicon rectifiers in accordance with Silcoa processes. Others described the essential details of petitioner's claimed secret process in Government publications which were distributed to the industry (Finding 13, R. 156-157).

Contrary to the implication in the Petition of extended research, Tarzian was offering to the trade, within six to eight weeks, a low priced silicon rectifier, which utilized the same basic junction (core of the device) as had been made at Silcoa, a device which had been previously made at Sylvania, and which was also made by Clevite and Radio Receptor on the basis of the Sylvania and Silcoa work (Ex. HZ, 1217-1219, 1656-1657). Further, engineers familiar with the same work were spread out in employment, without restriction, with such companies as R. C. A., I. B. M., Transistor Products, and Motorola (R. 1403-1406).

Also, contrary to the implication of uniqueness sought to be created in the Petition, there were a large number of manufacturers of silicon rectifiers of this type, several of which, Westinghouse, International Rectifier, Automatic Co., General Electric and Motorola, made low cost rectifiers for radio and television use (Finding 32, R. 162; Exs. E, J, BW, AG, AI, AH, AE, AN; R. 632-634; 636-649; 1552).

Unlike the inference sought to be created in the Petition to the effect that respondents immediately started up in business on the basis of the alleged proprietary work of

petitioner, the record facts reveal that respondents invested substantial sums in excess of about $1,000,000.00 in equipment, materials and research (Findings 23, R. 159 and 28, R. 161); that respondents struck out on their own to develop a different device and encountered numerous development and design problems (R. 1324-1327); that even at trial time respondents, as a result of following the path of independent development, had on hand 50,000 scrap rectifiers (R. 1324) and had not yet realized a profit; and that the final commercial product differed "substantially" in construction from that of petitioner (Findings 33, 34, R. 162 and 67, R. 173).

Finally, the District Court, after citing and considering some twenty-two California cases and other authorities immediately recognized as cases of precedent in this field, held that petitioner "had no trade secret" (Opinion, 166 F. Supp. 250, 270; Finding 37, R. 164); that its "complete process is so shown in at least five publications readily available to the trade" (Finding 45, R. 167); and that, in any event, respondents' process differed "materially" from petitioner's (Finding 67, R. 173).

ARGUMENT

I

This Court should not review a controversy which involved the application of local law to numerous questions of fact relating to highly technical and scientific proofs, and where, irrespective of the applicable law as to what constitutes proprietary material the Court found as a fact that nothing was appropriated.

Admittedly, the subject matter of this controversy involves the application of local law. An examination of the cases in this field indicates that general precedents from other federal and state courts are drawn upon, primarily

to indicate comparable fact situations but it is necessarily the local law of the forum which underlies the rationale of the decision.

Within the context of this local law, the District Court determined that (1) petitioner did not have a trade secret in the process or methods for the manufacture of a silicon rectifier;* and (2) that in any event, the process and methods practiced by respondents were, as a matter of fact, materially different than the process and methods claimed as trade secrets by petitioner.**

These separate determinations by the District Court were based upon an evaluation of a record consisting of more than 2,500 pages of transcript and 488 exhibits and principally comprising highly technical and scientific proofs, including expert testimony, charts, models and the like. The massive effort necessitated by the record is reflected in the elaborate Opinion and detailed documented Findings of the District Court (166 F. Supp. 250, 280).

One of the principal issues necessarily involved in the controversy was whether respondents appropriated any material alleged to be proprietary by petitioner.

The Petition attempts to create a question of law by contending that California law was not applied on this issue because the Court's conclusion was based on differences arising out of mere modifications or improvements. However, this is plainly not the fact nor the posture in which the case below was decided.

The fact, as previously noted, is that the Court found the differences to be "substantial"*** and "material".****

It is apparent that there is overwhelming evidence, beyond the requirements of Rule 52(a), F. R. C. P., to support these conclusions of the Court. The character of

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* Findings 36, 38-47; R. 163-7.
** Findings 49, 67; R. 168, 173.
*** Finding No. 34, R. 162.
**** Finding No. 67, R. 173.

the opinion of the Court of Appeals for the Ninth Circuit confirms the existence of such support for these Findings.

Some of the facts, as found on the record, supporting these conclusions are set forth in detail in Findings Nos. 34 (R. 162) and 50 to 66 (R. 168-173) where the substantial nature of the differences is made plain. After finding, on the basis of testimony by both parties, that processes for the manufacture of the device in issue necessarily followed the same fundamental steps,* the Court noted the following differences, among others:

(a) Petitioner and respondents purchased opposite types of silicon from different sources (Findings 50, 52, R. 168).

(b) Petitioner manufactured its own crystals whereas respondents purchased completed crystals on the open market. (Finding 50, R. 168)

(c) Petitioner and respondents utilized widely different methods of preparing silicon. As to respondents' method, petitioner's Chief Physicist testified that it was "essentially" opposite to that of petitioner's method and that he did not know of anybody who would want to do it in the manner of respondents' method (R. 822; Finding 52, R. 168)

(d) Petitioner's method in cutting and orienting silicon crystals was substantially different than respondents' in a critical and highly scientific aspect of the process for manufacture of a rectifier. (R. 1565-1567; Finding 54, R. 169)

(e) The soldering jigs and etching procedures were, as found by the Court, "entirely" different. (Findings 59-60, R. 171)

(f) Respondents did not use a transfer tray although petitioner did and claimed it as an important feature of its process. (Finding 61, R. 171)

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* Finding No. 42, R. 165.

(g) An alkaline solution was used by petitioner in chemical treatment whereas respondents used an acid which was chemically the opposite of petitioner's alkali. (Finding 63, R. 172)

(h) The methods of encapsulating the devices were so substantially different that petitioner withdrew any claim based thereon in the Court of Appeals. (Finding 65, R. 173)

(i) The production time was different by a matter of as much as 20 hours. (Finding 66, R. 173)

Petitioner is reluctant to recognize that the numerous and substantial differences in the respective processes detailed by the District Court are not merely minor modifications of *petitioner's claimed proprietary process*. They have however been found to be significant and material differences in the details of the *fundamental steps of a process which a manufacturer of alloyed rectifiers necessarily employed*, and over which petitioner *admittedly* had no proprietary claim. (Findings 42, R. 165 and 48, 167)

Therefore, even if the lower courts "ignored" California law, or misapplied it, in judging the character of petitioner's claimed secrets, the findings establish that respondents did not employ the process used by petitioner, ***no matter what its character.***

In the *By-Buk* case,* heavily relied upon by petitioner in the Court of Appeals and in the Petition herein, the trial court found that the machines were unique; that they had been painstakingly developed by plaintiff after he had been *unable to find any machines or plans for machines* to assist him; that he kept the discoveries secret; and that the defendant's machines were "substantially copies" thereof. In the instant case, the findings are ones of "substantial" and "material differences".

If there is any meaning in the admonition of Rule 52(a), F. R. C. P., that "Findings of fact shall not be set aside

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*163 Cal. App. 2d 157, 329 P. 2d 147 (1958).

unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of witnesses", then the Petition herein is far from adequate on the mere basis of the District Court's findings on the second issue of the controversy.

II

A. The Petition discloses on its face that the purported special and important reasons for review on writ of certiorari are not genuine

and

B. The record reveals that there was no genuine issue or controversy in the District Court as to the applicable law.

A.

Both questions presented by petitioner involve the simple issue of whether the lower courts "ignored California law of trade secrets" in disposing of the controversy (Petition, pp. 2-3). Presumably, if there were a substantial likelihood of this having occurred in the lower courts, the Petition might well provide one of the reasons this Court has traditionally considered in exercise of its sound judicial discretion toward review.

However, Petitioner appears less interested in the jurisdictional basis for this Petition, *i.e.*, the possibility that the lower courts may have ignored California law, than it is in creating a basis for obtaining an expression of views from this Court to add a general authority to what is purely a question of local cognizance. This is made quite clear in the following language from pages 7-8 of the Petition:

> "Although this is a diversity case, each decision in this growing body of law assumes national significance because of the tendency of this area to refer to general authority for delineation of the scope of protectible

trade secrets. This Court has not ruled on a question involving trade secrets since *Dupont De Nemours Powder Co.* v. *Masland*, 1917, 244 U. S. 100.[*] A definitive holding on the law of trade secrets under California law by this Court would not only remedy the failure of the courts below to apply the law but also establish guideposts for the future in an area where the recurring problem is one of protecting the valuable assets denominated trade secrets.[2]"

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[2] Petitioner recognizes that, in diversity cases, pursuant to the *Erie* v. *Tompkins* doctrine, there is no transcendental body of federal common law apart from the laws of the particular state involved. However, Petitioner believes that the significance of the individual precedents in this area of the law lends added emphasis to the need for this court to review the California law of trade secrets which, for all intents, parallels the general law."

If it is true, that "each decision * * * assumes national significance because of the tendency in this area to refer to general authority", then petitioner should not feel aggrieved if the lower courts yielded to this "tendency"? On the other hand, petitioner should not seek to perpetuate the same tendency in this Court if the basis for its grievance truly reposes in the lower courts' disregard for local law.

In truth, what petitioner seeks and needs from this Court is not a more particular regard for local law nor a more favorable application of general authority; it seeks and needs a special supervening precedent to enable it to overcome the imposing obstacle of 69 Findings of Fact (R. 150-175). This is most apparent from the Petition.

Since the law of unfair competition is purely of local cognizance and since, as the Petition discloses, petitioner

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[*] Prior to Erie v. Tompkins.

is not particularly seeking application of the local law which the lower courts supposedly ignored, there are no special and important reasons why this Court should be moved to permit review.

B.

Petitioner's present dissatisfaction with the scholarly holding of the District Court should be viewed in light of the fact that there was no conflict between the parties or with the District Court over the essential meaning of a trade secret at any time in the course of the trial. The common authorities, and especially the Restatement, were relied upon by all. As late as the closing arguments, counsel for petitioner was in complete accord with the expression read by the District Court from *A. O. Smith* v. *Petroleum Iron Works*, 73 F. (2d) 538 (C. A. 6, 1934).* Presumably, the *A. O. Smith* case remains "one of the very best" statements of the law because petitioner has seen fit to place great reliance upon it and to repeat a liberal portion of the same statement at page 21 of the Petition. The District Court also repeated it in the Opinion and obviously drew considerably from its principle in judging petitioner's claim.

Petitioner's rejection of the law applied by the Court below finds its origin in the necessity to find some basis for appeal and review in the light of the decisive Findings of Fact made herein. This is reflected in the following

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* At R. 1781: "Incidentally, I have studied many cases, so as long as I have interrupted you, I would like to say that I think one of the best definitions in a decided case is one from the Sixth Circuit, *A. O. Smith Corporation* against *Petroleum Company of Ohio*, decided in 1934. It was written by Judge Simonds, who is still a member of the court and now is the head of the court, chief judge of the court, and I want to read a statement because it confirms some of the discussions we have had."

At R. 1784, after reading from the *Smith* case: "* * * I thought I would call it to your attention as embodying a very good statement of the law.

"Mr. Dutton: I agree with you, your Honor. I think it is one of the very best."

transcript of the trial record, not part of the record transmitted to this Court.

In closing argument, petitioner's counsel stated (Trial Transcript 2389):

> "Each case we agree your Honor, must stand on its *own particular facts in this area.*" (Emphasis added.)

The posture of the case in the District Court seems to be made plain by the opening statement of counsel for respondents in the closing argument (Tr. 2442) where he stated:

> "I don't believe I have very much difficulty with the law that was cited and read by Mr. Dutton. But I confess I have some difficulty with the facts."

Counsel for the petitioner on rebuttal argument stated:

> "We think the substance of plaintiff's process is still in use by the defendants."

The Court replied:

> "I think that is the only safe ground to take, Mr. Dutton, because that is fundamental and not peripheral. * * * Either you have a secret as to an important thing or you don't. And the question is, did they take it."

Counsel for plaintiff then replied:

> "Precisely."

III

The lower courts did not "ignore" California law of trade secrets.

The District Court Decision

In Part II of the Opinion of the District Court (R. 78-149) captioned "Trade Secrets and Unfair Competition," the Court said the following:

> "What is a trade secret is difficult to define. However, on the whole, it must consist of a particular

> form of construction of a device, a formula, method or process that is of a character which does not occur to persons in the trade with knowledge of the state of the art or which cannot be evolved by those skilled in the art from the theoretical description of the process, or compilation or compendia of information or knowledge" (R. 87).

This definition by the learned District Court represents, respondents believe, as fine a capsule formulation of the qualities of a trade secret as may be found among all the authorities. It reflects, as the Opinion indicates, a thorough appraisal of a mass of precedent from the early Supreme Court cases such as *Fowle* v. *Park* (1889), 131 U. S. 88, 97; *Board of Trade* v. *Christie Grain & Stock Co.* (1905), 198 U. S. 236, 250, and *Dr. Miles Medical Co.* v. *Park & Sons Co.* (1911), 220 U. S. 373, 402, right through to the contemporary authorities found in the law of *California* as well as in the general law.*

Moreover, the foregoing definition expressed by the District Court is immediately derived from what is apparently the most widely approved authority in the field of trade secrets, the Restatement of Torts. Closely preceding the District Court's above definition is the following from the Opinion (R. 85):

> "In the comment on this section [Restatement, Torts, 757] two definitions are contained which are

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* The Opinion cited approximately 22 California cases and 2 law review articles on California law (R. 130-140). The Petition refers to 5 California cases, only 1 of which, the post-decided *By-Buk* decision, *supra*, was not cited by the District Court.

The inconsistency of petitioner's position that the courts below "deliberately ignored" California law, is reflected in its criticism of the District Court's actual application of two California cases, *LeVine* v. *E. A. Johnson & Co.*, 1951, 107 Cal. App. 2nd 322, 237 P. 2nd 309 and *Aetna Building Maintenance Co.* v. *West*, 1952, 39 Cal. 2nd 198, 246 P. 2nd 11. (See Petition, p. 13.) The same criticism was vigorously advanced in the Court of Appeals.

pertinent to the discussion to follow. The first is the definition of a trade secret:

"'A trade secret may consist of any formula, patterns, device or compilation of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials a pattern for a machine or list of customers.'

"As to secrecy, the same comment states:

"'The subject of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret. Substantially, a trade secret is known only in the particular business in which it is used. It is not requisite that only the proprietor of the business know it. He may, without losing his protection, communicate it to others pledged to secrecy. Others may also know of it independently, as for example when they have discovered the process or formula by independent invention and are keeping it secret. Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information.'"

In applying this definition to the petitioner's process, the District Court considered a whole range of specific characteristics implicit in the definition and also relied upon numerous authorities in varying factual situations encompassing those specific portions of the instant case which were similar. The principles are summarized by reference to Part IV of the Opinion, designated "Epitome of Accepted Principles" (R. 98-99):

"5. Trade secrets must be 'the particular secrets of the employer as distinguished from the general secrets

of the trade in which he is engaged.' For this reason, secrets acquired and developed as a result of long employment in the particuar trade may be carried over and put to use by the new employer and for oneself;

"6. Trade practices, to come within the obligation of secrecy must be secret. While they need not amount to invention, in the patent law sense, they must, at least, amount to discovery. It follows that matters which are generally known in the trade or readily discernible by those in the trade cannot be made secret by being so labelled in an agreement."

The authorities cited by the District Court in support of these principles are set forth in footnotes 48-54 (R. 138-140) to the Opinion and are immediately recognized as cases of precedent in this field. The proof upon which the findings are based disclosed that petitioner's trade secrets were found wanting in the light of these precedents.

Shortly after the decision of the District Court in September, 1958, the California District Court of Appeals filed its opinion in *By-Buk Co.* v. *Printed Cellophane Tape Co.* (1958), 163 Cal. App. 2d 157, 329 P. 2d 147. The Petition characterizes this decision as "the most recent and illuminating discussion" of the applicable California law and asserts that "it represents a definitive restatement of the accepted law of trade secrets of the State of California which the Courts below chose to ignore" (Petition, p. 18).

Since the *By-Buk* decision was not in existence at the time the District Court filed its Opinion in the instant case the District Court could not have chosen to ignore it. However, after the District Court Opinion was filed, Findings and Conclusions were submitted and were signed by the District Court on October 23, 1958—more than one month after the *By-Buk* decision—without the slightest utterance from petitioner by way of criticism, suggested revision or

deletion, supplementation or otherwise. If the then existent most recent "definitive restatement" of California trade secrets law were so critically at variance with the decision of the District Court, petitioner had ample opportunity to call it to the attention of the District Court prior to the filing of the Findings and Conclusions. However, the Petitioner *chose to ignore it*. The reasons are apparent.

In the *By-Buk* case the owner of the trade secrets had been unable to ascertain in the art any machinery or plans to accomplish the purposes he sought and by a system of trial and error developed a machine.* In the instant case, employees of the company which petitioner purchased had spread out to various manufacturers of similar devices and were utilizing the same information in manufacturing silicon rectifiers, while other such employees supplied information for government publications which were distributed to the industry describing the essential details of what petitioner claims to be its essential process.** Further, one of such publications was, in fact, specifically reviewed by respondents at the commencement of their operations.***

Both *By-Buk* and the District Court directly rely upon the Restatement definition of a trade secret.

Both draw from such definition the essential quality of uniqueness or novelty as a basis for a trade secret.

Both stand for the simple proposition that the thing sought to be protected as a trade secret must not be readily ascertainable by others.

By-Buk sustained a trade secret in the machines because their application as evolved by plaintiff was not readily

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* 329 P. 2d at p. 154.

** Finding 13, R. 156; Finding 45, R. 167.

*** R. 565, 593.

ascertainable by defendant. On the other hand, the Tarzian process was readily ascertainable to a multitude of knowledgeable people in the field (Findings 35, R. 163, 42-45, R. 165-167, 53, R. 169, 57, R. 170, 62, R. 172 and 67, R. 173).

It is apparent that the *By-Buk* case applied the same principles as did the District Court herein *but* to a different set of facts.

The Court of Appeals Decision

If it may be said that petitioner was tardy in discovering the *By-Buk* decision or in recognizing its purported significance, it may not be equally said that petitioner was unprepared to advance it in the Court of Appeals. In fact, the *By-Buk* decision may be characterized as petitioner's principal argument for reversal.

Petitioner's brief in the Court of Appeals cited the *By-Buk* decision in no less than 11 separate instances and discussed it in detail comparable to that set forth in pages 18-21 of the Petition.

To say, as does the Petition at page 7, that the Court of Appeals, in adopting the Opinion of the District Court "deliberately ignored California law," is a fatuous gesture in view of the intensity with which the *By-Buk* decision was urged on the Court of Appeals.

In truth, the only conclusion that may be drawn from the Court of Appeal's disposition is that the *By-Buk* case, as noted above herein, in fact coincided with the principles applied by the District Court herein. The *By-Buk* decision rests principally upon the same authorities that formed the District Court's views and advances the identical proposition that was expressed by the District Court, i.e., that a trade secret must essentially be unique or novel in the sense that it is not *readily* ascertainable by others. It was the

facts to which those principles were applied that were different.

In a footnote on page 21 of the Petition, there is a reference to *Lee* v. *Samburn*, Cal. Sup. Court 1952, 94 U. S. P. Q. 153, in a way that implies that this was another local precedent deliberately ignored by the lower courts. The District Court did not cite this case but it was called to the attention of the Court of Appeals. Actually, it substantially parallels the *By-Buk* case, although even that California Court did not see fit to cite it therein. Its complete consistency with the District Court's views is emphasized by its dedication to the principles expressed in *A. O. Smith* v. *Petroleum Iron Works*, 6 Cir. 1934, 73 F. 2d 531, portions of which opinion the District Court below quoted in its opinion and read into the record during the closing arguments (R. 1781-4).

It is plain that the charge by petitioner that the District Court "ignored" California law amounts to no more than disagreement with the District Court's interpretation of the authorities existing at the time the Opinion was written.

It is equally plain that disagreement with the Court of Appeal's reading of the authorities cited by the District Court *and* the *By-Buk* case underlies petitioner's charge against the Court of Appeals.

Two courts have already given great consideration to every phase of this controversy. Petitioner has had every opportunity to advance every argument and authority it possessed. Nothing was ignored. Respondents submit that there are no special and important reasons why this Court should make a third study of the holding.

CONCLUSION

In view of the foregoing, the Petition for a writ of certiorari should be denied.

Respectfully submitted,

T. F. Reddy, Jr.,
James G. Foley,
Attorneys for Respondents

Pennie, Edmonds, Morton,
Barrows & Taylor,
247 Park Avenue,
New York 17, New York.

Richards, Birnbaum, Watson & Smith,
433 South Spring Street,
Los Angeles 13, California,
Of Counsel.

Supreme Court of the United States

PETITIONER'S REPLY BRIEF

PETITIONER'S REPLY BRIEF

In resisting this petition for certiorari, Respondents assert, initially, that Petitioner somehow misstated the facts on this record; and, secondly, that, on the facts as restated by Respondents, the trial court and Court of Appeals' decisions find adequate support under California law. The tissue-thin nature of such assertions is readily discerned by a cursory glance at Respondents' so-called counter-statement of facts (Resp. Brief, pp. 2-4), and by an unravelling of Respondents' twisted attempts to distinguish *Lee v. Samburu* and the *By-Buk* case. Respondents apparently admit that the latter cases do represent the true state of the California law of trade secrets.

I.

Respondents' Counter-statement of facts consists of the irrelevant, obvious and inaccurate.

What are the facts upon which Respondents rely? First, it is asserted that silicon rectifiers were developed in 1952. This "fact" has, throughout this litigation, been the focal point of Respondents' studied determination to befog the true issues involved in this case. In the first place, silicon rectifiers are not the "subject matter" of this litigation. Petitioner has never claimed proprietary interest in all such devices. Certainly, Respondents do not. The subject matter is, instead, the Tarzian process for manufacture of its particular silicon rectifier which Petitioner asserts was pirated by Respondents. The fact that a silicon rectifier was developed in 1952 has absolutely no significance in this lawsuit. This is most graphically demonstrated by the

numerous holdings affirming trade secrets in processes for manufacture of common, well-known products. See, for example, *Heyden Chemical Corp. v. Burrell & Neidig*, 1949, 2 N.J. Supp. 48, 64 A. 2d 465 (trade secret in process for manufacture of formaldehyde—about as common a chemical compound as can be found); *Head Ski Co., Inc. v. Kam Ski Company Inc.*, D. C. Md. 1958, 158 F. Supp. 919 (a trade secret for manufacture of metal skis); *Franke v. Wiltschek*, 2 Cir., 1953, 209 F. 2d 493 (process for compressing a *face cloth* into shape of a small drum); *Monsanto Chemical Co. v. Millar*, D. C. Utah, 1958, 118 U.S.P.Q. 74 (process for production of *elemental phosphorous*).

The next "fact" Respondents assert is that the Silicon Corporation of America (Silcoa), purchased by Petitioner in 1955, was not a commercial nor financial success. Petitioner agrees that Silcoa had not, in 1955, been successful in developing a process for producing low-cost silicon rectifiers acceptable to the television and radio trade. The significant point is that Petitioner *did* develop such a process.

Without benefit of a single record reference, Respondents next blandly state as a "fact" that Petitioner was offering its rectifier to the trade within six to eight weeks. (Respondents do not indicate when the six to eight-week period began to run.) Respondents then assert that similar devices were being made by Sylvania, Clevite and Radio Recepter. At each of the record references given by Respondents, the witnesses testified that neither Clevite nor Radio Recepter had, at that time, developed, nor did they later develop, a commercial product.[1] No mention is made

[1] The following colloquies indicate the extent of Radio Receptor and Clevite activities in the silicon rectifier field:

"Q. Have you made a silicon rectifier containing an aluminum, gallium, and tin junction, since you left Silcoa?

at those pages of a Sylvania device. This is typical of Respondents' treatment of the record.

The next "fact" is an attack on the uniqueness of the Tarzian process with a reference to a large number of manufacturers of silicon rectifiers, none of which, however, are shown to have used a process even remotely resembling the pirated Tarzian process or its counterpart Audio process, and none of which companies were marketing rectifiers in competition with Tarzian in 1957.

Respondents contend that substantial sums were invested in development of their product but do not question Petitioner's statement that the $1,000,000.00 allegedly invested went to the purchase of a plant to house their rectifier division, and for equipment and inventory. No time or money was allocated to or used in research. The trial court did find "substantial" differences in the two processes which, in its opinion, were the result of "the conscious attempt by former employees not to infringe" on the Tarzian process. The fact that such conscious endeavor to hide the spoils of their raid left them with 50,000 scrap rectifiers, as Respondents point out (Resp. Brief p. 4, R. 1324), makes somewhat prophetic the statement by Petitioner's expert at trial that:

> "In this very complicated semiconductor business, one never knows for sure what is going to happen if he makes very, very minute changes in a process.

"A. Well, I have, yes.
"Q. At Radio Receptor?
"A. Yes; although this was not a commercial item. It did not become a commercial item.
"Q. It did not become a commercial item?
"A. No." (R. 1219)

And, at R. 1659-60:

"Q. Is it or is it not a fact that the process described in the Eighth Quarterly Report never became a commercial item with Klevite (sic.)?
"A. That is true, it never became a commercial item."

"Generally, or at least very often, when you change a process even by what would appear to be insignificant amounts, you find that you have difficulty at some other stage in the process, which you couldn't have anticipated." (R. 921-922.)

II.

The lower courts ignored APPLICABLE California law.

In answer to this Petitioner's contention that the trial court ignored applicable California law, Respondents have audited the opinion and report that 22 California decisions were cited. Of those 22 decisions, however, the bulk deal with unrelated customer list cases which furnish no real precedent or guide in determination of a case involving industrial trade secrets. In *Lee v. Samburn*, Calif. Sup. Ct., 1952, 94 U.S.P.Q. 153, which *was* ignored by the trial court, Judge Praeger, in a reasoned analysis of California precedent in this area, stated (94 U.S.P.Q. at p. 154):

> "There are not many cases in California involving improper disclosure or use of trade secrets (other than customer list cases). See: Gate-way, Inc. v. Wilson, 94 Cal. App. 2d 706 (83 USPQ 478); Levine v. Johnson, 107 Cal. App. 2d 322; Riess v. Sanford, 47 Cal. App. 2d 244; Germo Mfg. Co. v. McClellan, 107 Cal. App. 532; Holly v. Hunt, 13 Cal. App. 2d 335.
>
> "*Federal cases and cases from other states cast more light upon the subject.*" (Emphasis added.)

The few California cases cited and discussed by Judge Praeger were those cited also in the *By-Buk* case. Customer list cases were not considered by either Judge Praeger or the Appellate Court of California in the *By-Buk* case.

LeVine v. E. A. Johnson and Co., 1951, 107 Cal. App. 2d

322, 237 P. 2d 309, was the principal California non-customer list case relied on by the District Court. The Appellate Court of California in that case held against the plaintiff-employer for one reason alone, and that was because the defendant-employee had 40 years' experience in the specific processes involved. The case has no application to the present one.

The *By-Buk* case and *Lee v. Samburn* are parallel holdings setting forth careful analyses of the California law of trade secrets. On p. 7 of their brief, Respondents make certain curiously tortured arguments in an attempt to distinguish the holdings in those cases. (Resp. Brief, p. 7, 15). First, they state that because the trial court in this case found the Audio process to differ from the Tarzian process, *By-Buk* supports their position because, in that case, the defendant's machines were found to be copies of the plaintiff's machines. This illogical approach ignores the fact that the findings by the District Court in this case of "substantial" differences between the two processes were based solely on evidence of modifications adopted by Audio after the fact of appropriation. Evidence of the same type of modifications was held properly excluded in *By-Buk* and under all the authorities should have been given no effect in this case.[2]

Secondly, Respondents argue that *By-Buk* is distinguishable because the machines there involved were found to be unique. This argument ignores the fact that in *By-Buk* the finding of uniqueness and novelty was made in the face of the defendant's contention that such novelty was lacking because of the manufacture of similar machines by plain-

[2] See pp. 21-24 of Petitioner's Main Brief.

tiff's competitors. Under the District Court's holding in this case, novelty would have been lacking in *By-Buk*.

Finally, Respondents assert that in *By-Buk* the plaintiff developed his own machines after he had been unable to find any machines or plans for machines to assist him. It is apparent, however, that the court meant that the plaintiff was unable to find plans for machines by *legitimate* means. Certainly, the plaintiff in *By-Buk* could have followed Audio's example and pirated the machines and plans from his competitors who had already developed similar machines.[3] Petitioner does not deny that Audio might, after extensive independent thought, effort and expense, have developed a process to achieve the results achieved by Petitioner. The fact is that there was no independent development by Respondents, and, under California law, they had no right to the use of Petitioner's secret process.[4]

The decision by the trial court and the Court of Appeals should be reviewed by this Court for the reasons set forth in Petitioner's Main Brief. The petition for writ of certiorari should be granted.

Respectfully submitted,

C. B. Dutton,
Carl D. Overman,
Christopher Kirages,
Attorneys for Petitioner.

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[3] Respondents point out on p. 15 of their brief that the plaintiff in *By-Buk* did not choose to do so but instead developed his own machines after a system of trial and error. Certainly, that plaintiff must have looked to existing knowledge in the art relevant to such machines. Nowhere have Respondents made the assertion that they, following a system of trial and error, developed their own manufacturing process from the existing knowledge in the art.

[4] "It is undoubtedly true that if. Tape Company [defendant] had used the same thought, labor and ingenuity which were used by plaintiff it might have been able to secure the same results that plaintiff did. But this fact does not destroy plaintiff's right not to have its processes wrongfully disclosed to others and used to its detriment." (By-Buk Company v. Printed Cellophane Tape Company, 329 P.2d at pp. 152-153.)